

Message Text

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ORIGIN EUR-08

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EB/OFPP/FPD: JFERCH
H: TWESTON
-----130568 160059Z /65
O 152238Z MAR 78
FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA IMMEDIATE

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E.O. 11652: NIA

TAGS: OREP (CODEL BAUCUS)

SUBJECT: CODEL BAUCUS - PURPOSE OF VISIT

1. AS INDICATED IN HIS TELECON WITH AMBASSADOR ENDERS, CONGRESSMAN MAX BAUCUS (D-MONT.) WISHES VISIT OTTAWA PRIMARILY TO DISCUSS WITH CANADIAN OFFICIALS PROSPECTS FOR RELIEF OF IMPACT ON MONTANA OF CUT-BACK IN CANADIAN CRUDE OIL SUPPLY. BAUCUS PLANS ARRIVE OTTAWA 10:10 AM MARCH 23, BUT WILL TRY TO MAKE EARLIER CONNECTION TORONTO WHICH WOULD PERMIT ARRIVAL OTTAWA AT 9:40; WILL STAY AT FOUR SEASONS HOTEL. HE PLANS DEPART OTTAWA FOR WASHINGTON 8:00 AM MARCH 24. SHOULD MARCH 23 VISIT PROVE UNWORKABLE, HE WOULD WISH RESCHEDULE VISIT FOR APRIL 6.

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2. FROM CONTACTS WITH BAUCUS' STAFF, FOLLOWING EMERGED AS MAJOR POINTS CONGRESSMAN WILL WANT TO MAKE IN ADDRESSING HIS ENERGY CONCERNS: MONTANA'S GEOGRAPHIC LOCATION PREVENTS ACCESS TO MID-WESTERN PIPELINE SYSTEM OR TO WEST COAST CRUDE; IT WAS, THEREFORE, PARTICULARLY HARD-HIT AS RESULT OF CANADIAN CUT-BACK IN CRUDE OIL SUPPLY. ALTHOUGH LONG-TERM (3-

5 YEARS) SUPPLY PROSPECTS ARE GOOD IF ALTERNATIVE DELIVERY SYSTEMS (E.G., NORTHERN TIER PIPELINE) ARE INSTALLED, INTERIM SHORTFALL IN SUPPLY (50-55,000 BPD FROM CANADIAN SOURCES) HAS HAD SEVERE EFFECT ON SOME REFINERIES, PARTICULARLY

SMALLER INDEPENDENTS, WITH PROSPECTS OF CLOSURE IN SOME INSTANCES.

3. FROM MEETINGS WITH REPRESENTATIVES OF MONTANA REFINERIES (AS WELL AS STATE AND DOE OFFICIALS) BAUCUS HAS CONCLUDED THAT MONTANA REFINERS AND SUPPLIERS ARE DOING UTMOST THROUGH DAY-TO-DAY AD HOC ARRANGEMENTS TO MAINTAIN NECESSARY LEVEL OF SUPPLY. FIRM SOLUTION FOR NEXT SEVERAL YEARS, HOWEVER, APPEARS DEPENDENT ON CANADIAN AGREEMENT TO EXEMPT MONTANA FROM CUT-BACK IN SUPPLY. BAUCUS BELIEVES RESTORATION OF CANADIAN SUPPLY EXTREMELY IMPORTANT TO MONTANA. CONGRESSIONAL RESEARCH SERVICE AND DOE ESTIMATE THAT CANADIAN CUT-BACK COULD COST MONTANA AS MUCH AS \$300 MILLION IN REAL INCOME DURING COMING YEAR, AS WELL AS RESTRICTING SUPPLY OF REFINED PRODUCT TO EASTERN WASHINGTON, IDAHO AND WESTERN NORTH DAKOTA, WHICH ARE SERVED BY MONTANA REFINERIES. DOE STUDY PREDICTS LOSS OF MORE THAN 2,000 JOBS IN BILLINGS AREA AS RESULT OF CANADIAN CUT-BACK.

4. BAUCUS IS AWARE OF PAST UNWILLINGNESS OF GOC TO MAKE EXCEPTIONS TO CUT-BACKS, BUT REMAINS HOPEFUL THAT UNIQUE LIMITED OFFICIAL USE

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NATURE OF MONTANA'S PROBLEM AND RELATIVELY SMALL REQUIREMENT FOR CANADIAN OIL CAN BE CONSIDERED IN ISOLATION FROM OVERALL SUPPLY PROBLEM AND JUSTIFY DIFFERENTIAL TREATMENT FOR MONTANA. MOST ATTRACTIVE SOLUTION FROM MONTANA POINT OF VIEW WOULD BE CANADIAN ACCEPTANCE OF SWAP THROUGH PORTLAND-MONTREAL PIPELINE; BAUCUS UNDERSTANDS CANADIAN PREFERENCE FOR SWAPPING THROUGH MID-WEST AND SARNIA PIPELINES, BUT HIS INFORMATION IS THAT US MID-WEST SYSTEM RUNNING AT FULL CAPACITY AND THAT SARNIA APPROACHING FULL CAPACITY. HE BELIEVES THAT CANADIAN INSISTANCE ON SARNIA AS ONLY ACCEPTABLE SWAP ROUTE IS THEREFORE UNREASONABLE, PARTICULARLY IN VIEW OF MONTANA'S RELATIVELY SMALL, RELATIVELY SHORT-TERM REQUIREMENT.

5. BAUCUS SHARED HIS VIEWS WITH VICE PRESIDENT MONDALE PRIOR TO LATTER'S OTTAWA VISIT AND HAS ALSO SPOKEN WITH CANADIAN MP'S AND EMBASSY OFFICIALS. CANADIAN RESPONSE WAS GENERALLY NOT ENCOURAGING, BUT RECOGNIZED MONTANA'S UNIQUE SITUATION. BAUCUS BELIEVES EVERY EFFORT SHOULD BE MADE TO GAIN CANADIAN COOPERATION IN RELIEVING MONTANA PROBLEM AND THAT IS PRIMARY PURPOSE HIS TRIP. HE IS AWARE THAT CANADIANS ARE INTERESTED IN STORAGE OF PORTION OF STRATEGIC PETROLEUM RESERVE IN

EASTERN CANADA AND POSSIBLY TIME SWAPS AS WELL, THOUGH HE RECOGNIZES THAT LATTER ARRANGEMENTS CAUSE PRICING PROBLEMS AND OTHER DIFFICULTIES FOR OIL COMPANIES ON BOTH SIDES. BAUCUS WILL ATTEMPT TO DISCOVER WHETHER THERE ARE OTHER POSSIBLE AREAS OF COOPERATION WHICH MIGHT INTEREST CANADIANS. BAUCUS WOULD VERY MUCH APPRECIATE EMBASSY'S ARRANGING

APPOINTMENT WITH ENERGY MINISTER GILLESPIE AND OTHERS AS APPROPRIATE SO THAT HE CAN PRESENT MONTANA'S CASE.

6. IN ADDITION TO ENERGY QUESTION, BAUCUS HAS THREE OTHER CONCERNS HE WISHES TO ADDRESS DURING OTTAWA VISIT. (A) WHEAT: BAUCUS, (WHO IS MEMBER OF AGRICULTURE SUBCOMMITTEE OF APPROPRIATIONS COMMITTEE) IS INTERESTED IN DISCUSSING LIMITED OFFICIAL USE

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WITH OTTO LANG CANADIAN REACTION TO DOMESTIC INCREASES IN THE LOAN LEVEL THE US USES TO SUPPORT GRAIN PRICES. US LOAN LEVEL TENDS TO SET WORLD PRICE, AND A VARIETY OF PROPOSALS TO INCREASE IT HAVE BEEN INTRODUCED IN HOUSE AND SENATE, (E.G., BILL BY CONGRESSMAN HIGHTOWER TO RAISE LEVEL TO \$3 PER BUSHEL). HE WANTS TO KNOW WHAT PRODUCTION AND MARKETING RESPONSES CANADA WOULD MAKE TO A LOAN LEVEL INCREASE. ALSO INTERESTED IN GENEVA NEGOTIATIONS TOWARD INTERNATIONAL WHEAT AGREEMENT. WANTS TO KNOW CANADIAN VIEW OF WHAT UPPER AND LOWER "TRIGGER" PRICES ARE APPROPRIATE FOR DECREASING AND INCREASING WORLD RESERVES.

7. (B) BEEF: BAUCUS WOULD LIKE TO DISCUSS WITH WHELAN US-CANADIAN TRADE IN BEEF, PARTICULARLY CANADA'S RESTRICTIVE BLUETONGUE AND BRUCELLOSIS REQUIREMENTS AND LARGE NUMBERS OF LIVE CANADIAN FEEDER CALVES ENTERING BORDER STATES. (C) ENVIRONMENT: THE POPLAR RIVER PROBLEM CONTINUES TO DRAW LETTERS TO THE CONGRESSMAN. WHILE BAUCUS IS FULLY IN ACCORD WITH EFFORTS BEING MADE BY DEPARTMENT TO RESOLVE ISSUE, HE IS ANXIOUS TO HELP IN ANY WAY WHICH EMBASSY MIGHT FIND USEFUL. CALL ON MINISTER OF ENVIRONMENT (MARCHAND) TO EXPRESS CONTINUING MONTANA CONCERN MIGHT BE FITTED INTO SCHEDULE IF POSSIBLE. THERE IS ALSO PERSISTENT QUESTIONING FROM MONTANA REGARDING CANADIAN INTENTIONS ON CABIN CREEK DEVELOPMENT.

8. DEPARTMENT HAS INFORMED BAUCUS' STAFF OF OUR LATEST INFORMATION ON CANADIAN POSITIONS IN RESPECT OF ITEMS (A) AND (B) ABOVE.

9. FSO ED NEFF, CONGRESSIONAL FELLOW WHO IS ASSISTANT TO BAUCUS, WILL ARRIVE OTTAWA MARCH 22 AND WILL CONTACT EMBASSY. NEFF WISHES MEET AND ASSIST BAUCUS ON HIS ARRIVAL LIMITED OFFICIAL USE

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OTTAWA MARCH 23.

10. DECONTROL UPON RECEIPT. VANCE

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NNN

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